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AMANNE

"A New Compact for Development"

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COVER PHOTO: President Bush announces a new compact for global development. Accompanying the President are the lead singer of U2, Bono, Cardinal McCarrick, and Worldbank President Jim Wolfensohn.

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BUSH SPELLS OUT GOALS OF DEVELOPMENT AID TO POORER NATIONS

President says aid should be in form of grants, rather than loans

President Bush says the goal of aid to developing nations should be to help them "grow and prosper beyond the need for any aid," and that the focus should be on providing "real benefits to the poor instead of debating arbitrary levels of inputs from the rich."

In March 22 remarks to the United Nations International Conference on Financing for Development in Monterrey, Mexico, Bush said that when nations adopt reforms, each dollar of aid attracts two dollars of private investment.

"When aid is linked to good policy," the president added, "four times as many people are lifted out of poverty compared to old aid practices."

The president said that aid must be tied to political, legal and economic reforms and that by insisting on reform, "we do the work of compassion."

On that point, he said, the United States will lead by example. Bush said that he has proposed a 50-percent increase in U.S. core development assistance over the next three years, which eventually will mean a $5 billion ($5,000 million) annual increase over current levels. These new funds will go into what he called a new Millennium Challenge Account devoted to projects in nations "that govern justly, invest in their people, and encourage economic freedom."

The president declared that "we will promote development from the bottom up, helping citizens find the tools and training and technologies to seize the opportunities of the global economy." Bush said that more of the developed world's aid should be in the form of grants, rather than loans "that can never be repaid." The president said that the aid should go for improving health care, such as expanding "our efforts to fight AIDS, which threatens to undermine whole societies."

The work of development, the president said, is much broader than development aid. The vast majority of financing for development comes not from aid but from trade and domestic capital and foreign investment, Bush asserted. He noted that developing countries receive about $50 billion ($50,000 million) every year in aid. This compares to foreign investment of almost $200 billion ($200,000 million) and annual earnings from exports of $2.4 trillion.

"So to be serious about fighting poverty, we must be serious about expanding trade," Bush said. The president pointed out that trade has helped nations as diverse as South Korea, Chile and China to replace "despair with opportunity for millions of their citizens."

On the issue of terrorism, Bush said that "history has called us to a titanic struggle whose stakes could not be higher, because we're fighting for freedom itself." The United States, he said, is leading the way in pursuit of "great and worthy goals to make the world safer, and as we do, to make it better."

Following is a transcript of the president's remarks:

President Bush Good morning. We meet at a moment of new hope and age-old struggle, the battle against world poverty. I'm honored to be with so many distinguished leaders who are committed to this cause. I'm here today to reaffirm the commitment of the United States to bring hope and opportunity to the world's poorest people, and to call for a new compact for development defined by greater accountability for rich and poor nations alike.

I want to thank Vicente Fox, el Presidente de Mexico, and the people of Monterrey for such grand hospitality. I want to thank Kofi Annan for his steadfast leadership. And I want to thank the distinguished leaders who are here for your hospitality, as well.

Many here today have devoted their lives to the fight against global poverty, and you know the stakes. We fight against poverty because hope is an answer to terror. We fight against poverty because opportunity is a fundamental right to human dignity. We fight against poverty because faith requires it and conscience demands it. And we fight against poverty with a growing conviction that major progress is within our reach.

Yet this progress will require change. For decades, the success of development aid was measured only in the resources spent, not the results achieved. Yet pouring money into a failed status quo does little to help the poor, and can actually delay the progress of reform. We must accept a higher, more difficult, more promising call. Developed nations have a duty not only to share our wealth, but also to encourage sources that produce wealth: economic freedom, political liberty, the rule of law and human rights.

The lesson of our time is clear: When nations close their markets and opportunity is hoarded by a privileged few, no amount — no amount — of development aid is ever enough. When nations respect their people, open markets, invest in better health and education, every dollar of aid, every dollar of trade revenue and domestic capital is used more effectively.

We must tie greater aid to political and legal and economic reforms. And by insisting on reform, we do the work of compassion. The United States will lead by example. I have proposed a 50-percent increase in our core development assistance over the next three budget years. Eventually, this will mean a $5-billion annual increase over current levels.

These new funds will go into a new Millennium Challenge Account, devoted to projects in nations that govern justly, invest in their people and encourage economic freedom. We will promote development from the bottom up, helping citizens find the tools and training and technologies to seize the opportunities of the global economy.

I've asked Secretary of State Powell, Secretary of Treasury O'Neill to reach out to the world community to develop clear and concrete objective criteria for the Millennium Challenge Account. We'll apply these criteria fairly and rigorously. And to jump-start this initiative, I'll work with the United States Congress to make resources available over the 12 months for qualifying countries. Many developing nations are already working hard on the road — and they're on the road of reform and bringing benefits to their people. The new Compact for Development will reward these nations and encourage others to follow their example.

The goal of our development aid will be for nations to grow and prosper beyond the need for any aid. When nations adopt reforms, each dollar of aid attracts two dollars of private investments. When aid is linked to good policy, four times as many people are lifted out of poverty compared to old aid practices.

All of us here must focus on real benefits to the poor, instead of debating arbitrary levels of inputs from the rich. We should invest in better health and build on our efforts to fight AIDS, which threatens to undermine whole societies. We should give more of our aid in the form of grants, rather than loans that can never be repaid.

The work of development is much broader than development aid. The vast majority of financing for development comes not from aid, but from trade and domestic capital and foreign investment. Developing countries receive approximately $50 billion every year in aid. That is compared to foreign investment of almost $200 billion in annual earnings from exports of $2.4 trillion. So, to be serious about fighting poverty, we must be serious about expanding trade.

President Bush and President Fox of Mexico at the U.N. Enternational Conference on Financing for Development in Monterrey, Mexico.

Trade helped nations as diverse as South Korea and Chile and China to replace despair with opportunity for millions of their citizens. Trade brings new technology, new ideas and new habits, and trade brings expectations of freedom. And greater access to the markets of wealthy countries has a direct and immediate impact on the economies of developing nations.

As one example, in a single year, the African Growth and Opportunity Act has increased African exports to the United States by more than 1,000 percent, generated nearly $1 billion in investment, and created thousands of jobs.

Yet we have much more to do. Developing nations need greater access to markets of wealthy nations. And we must bring down the high trade barriers between developing nations, themselves. The global trade negotiations launched in Doha confront these challenges.

The success of these negotiations will bring greater prosperity to rich and middle-income and poor nations alike. By one estimate, a new global trade pact could lift 300 million lives out of poverty. When trade advances, there's no question but the fact that poverty retreats.

The task of development is urgent and difficult, yet the way is clear. As we plan and act, we must remember the true source of economic progress is the creativity of human beings. Nations' most vital natural resources are found in the minds and skills and enterprise of their citizens. The greatness of a society is achieved by unleashing the greatness of its people. The poor of the world need resources to meet their needs, and like all people, they deserve institutions that encourage their dreams.

All people deserve governments instituted by their own consent; legal systems that spread opportunity, instead of protecting the narrow interests of a few; and the economic systems that respect their ambition and reward efforts of the people. Liberty and law and opportunity are the conditions for development, and they are the common hopes of mankind.

The spirit of enterprise is not limited by geography or religion or history. Men and women were made for freedom, and prosperity comes as freedom triumphs. And that is why the United States of America is leading the fight for freedom from terror.

We thank our friends and neighbors throughout the world for helping in this great cause. History has called us to a titanic struggle, whose stakes could not be higher because we're fighting for freedom itself. We're pursuing great and worthy goals to make the world safer, and as we do, to make it better. We will challenge the poverty and hopelessness and lack of education and failed governments that too often allow conditions that terrorists can seize and try to turn to their advantage.

Our new approach for development places responsibility on developing nations and on all nations. We must build the institutions of freedom, not subsidize the failures of the past. We must do more than just feel good about what we are doing; we must do good. By taking the side of liberty and good government, we will liberate millions from poverty's prison. We'll help defeat despair and resentment. We'll draw whole nations into an expanding circle of opportunity and enterprise. We'll gain true partners in development and add a hopeful new chapter to the history of our times.

May God bless you all.***

BUSH PROPOSAL FOR A "NEW COMPACT FOR DEVELOPMENT"

Seeks $5,000 million U.S. aid increase by 2006

President Bush's recently proposed " New Compact for Development" would increase U.S. development assistance by 50 percent by fiscal year 2006, adding $5,000 million to U.S. annual official aid flows, according to a March 22 White House fact sheet.

The additional money, which must be approved by Congress, would go into a "New Millennium Fund" aimed at helping developing countries that embrace good government, health, education and economic policies.

Following is the White House fact sheet:

Note: *In the text "billion" equals 1,000 million.*

Presidential Action

President George W. Bush has said that combating poverty is a moral imperative and has made it a U.S. foreign policy priority. To meet this challenge, the President has proposed a "new compact for development" that increases accountability for rich and poor nations alike, linking greater contributions by developed nations to greater responsibility by developing nations.

Increased Development Assistance

The President announced in a speech at the Inter-American Development Bank on March 14, that the United States will increase its core development assistance by 50% over the next 3 years, resulting in a $5 billion annual increase over current levels. These additional funds will go to a new Millennium Challenge Account that will fund initiatives to help developing nations improve their economies and standards of living.

Aid Linked to Sound Policies

The new compact recognizes that economic development assistance can be successful only if it is linked to sound policies in developing countries. In sound policy environments, aid attracts private investment by two to one — that is, every dollar of aid attracts two dollars of private capital. In countries where poor public policy dominates, aid can actually harm the very citizens it was meant to help.

The funds into the Millennium Challenge Account will be distributed to developing countries that demonstrate a strong commitment toward:

- Good governance. Rooting out corruption, upholding human rights, and adherence to the rule of law are essential conditions for successful development.
- The health and education of their people. Investment in schools, health care, and immunization provide for healthy and educated citizens who become agents of development.
- Sound economic policies that foster enterprise and entrepreneurship. More open markets, sustainable budget policies, and strong support for development will unleash the enterprise and creativity for lasting growth and prosperity.

The President has instructed the Secretary of State and the Secretary of the Treasury to reach out to the world community to develop a set of clear, concrete and objective criteria for measuring progress in the above areas.

Why is the President Proposing This New Initiative?

In two generations, per capita income in developing countries has nearly doubled. Illiteracy has been cut by a third — giving more children a chance to learn and prepare for a brighter future. Infant mortality in the poorest countries has been almost halved — giving more children a chance to live. Nations from India to Chile have changed old ways and found new wealth. Yet in this world of growing opportunity, there are entire regions untouched by progress. The statistics are alarming:

- One half of the world's population today lives on less than $2 a day.
- For billions of people, especially in Africa and the Islamic world, poverty is spreading, and per capita income is falling.
- In Malawi, thousands of teachers die each year from AIDS, and life expectancy has fallen to 38 years.
- In Sierra Leone, one third of all babies born today will not reach the age of 5.

President Bush wants to close the growing divide between nations that are making progress and those that are falling deeper into need and despair. This growing divide is a major source of sorrow and instability in the world, and the President wants to include every African, Asian, Latin American and Muslim in an ever-expanding circle of development.

Success Stories in the Developing World

Marrying good policies to aid has put many countries on a path toward a stronger, more prosperous future. For example:

- Mozambique's economy grew 10 percent in 2001. In fact, over the 1990s, Mozambique averaged roughly 6 percent annual growth.
- Sound policies allowed Uganda to open its schools to more children and increase teacher pay by 2,700 percent. Over the last decade, Uganda has averaged annual growth rates of roughly 7 percent.

"History has called us to a titanic struggle whose stakes could not be higher, because we're fighting for freedom itself. The United States, is leading the way in pursuit of great and worthy goals to make the world safer, and as we do, to make it better." -- President George Bush

- Bangladesh, a nation that was once a symbol of famine, has transformed its agricultural sector. Rice production, for example, is up nearly 70 percent since the mid-1970s.

The Administration's Commitment to the Developing World

The United States is consistently the world's largest bilateral donor to the developing world. While many donors provide economic assistance, the United States provides resources both to strengthen security and foster economic growth. Congress appropriated in FY 2002 $17.1 billion to support these activities.

Key Facts

- The United States is the world leader in humanitarian assistance and food aid, providing over $3 billion combined in 2000.
- The United States is spending $1 billion per month for the war on terrorism. In addition, the United States contributed $976 million to international peacekeeping in 2001.
- The United States is the top importer of goods from developing countries, import-ing $450 billion in 2000, eight times greater than all Official Development Assistance (ODA) to developing countries from all donors.
- The United States is the top source of private capital to developing countries, averaging $36 billion annually between 1997 and 2000.
- The United States leads the world in charitable donations to developing countries — $4 billion in 2000.

The U.S. is one of the top two providers of Official Development Assistance (ODA). In 2000, the United States provided $10 billion in ODA. This ODA is expected to increase substantially from 2001 to 2003 in key sectors:

- HIV/AIDS — 54%
- Basic Education — 50%
- Trade and Investment — 38%
- Agriculture — 38%

USAID's core "Development Assistance" account is expected to increase 22 percent overall from 2001 to 2003, with significant increases in key regions:

- Africa — 30%
- Asia and the Near East — 39%
- Latin America and the Caribbean — 29%.***

COMBATING GLOBAL POVERTY

By Paul O'Neill, U.S. Secretary of the Treasury

The U.S. Secretary of the Treasury believes the international community can do a better job in combating global poverty. He urges greater attention be placed on helping countries to become more productive.

The secretary also points out that "Countries that have been successful consistently make wise policy choices in four areas: (1) encouraging private enterprise through market oriented mechanisms; (2) recognizing the importance of good governance and a competent public administration; (3) opening economies to trade and investment; and (4) building capacity through investments in human capital and the transmission of best practice."

Paul O'Neill

A new way of thinking about development, the cornerstone of any poverty reduction effort, is not only a moral imperative, it is also an economic necessity. As President George W. Bush has said: "A world where some live in comfort and plenty, while half of the human race lives on less than $2 a day, is neither just, nor stable."

During 40 years of traveling and working around the world, I have seen the tragedy of poverty first-hand: children afflicted by disease because they lack basics such as clean water and sanitation, and adults who cannot earn enough to feed their families. All too often personal struggles are intensified when the surrounding social and political fabric is frayed — poor governance, political instability and conflict, HIV/AIDS and other infectious disease, and vulnerability to natural disaster all exact their greatest toll on the most vulnerable members of society.

If we are to re-think development, we must first draw on the lessons of experience, culling success from failure while thinking in innovative ways about basic problems. In my mind, a few key principles are the foundation for future success:

FOSTER RISING PRODUCTIVITY TO SPUR GREATER GROWTH

Rising productivity — the amount that each worker produces — has been the driving force behind increases in economic growth and rising per capita income throughout history. An expanding economy, in turn, translates into better jobs, increased wages, and a higher standard of living for all. In a paper by John Page at the World Bank Institute, differences in productivity were singled out as the most important reason for the sharp dichotomy between the spectacular economic growth experienced in East Asia over the last 25 years and the sluggish growth of the Middle East and North Africa region (productivity growth there was negative). What enables people to become more productive? Many things - building human capital and foundational institutions such as legal systems, offering the right incentives to reward hard work, removing government-generated obstacles to business, teaching new skills, and even developing things that many of us take for granted, such as functioning sewer systems and clean water to stave off disease.

Countries that have been successful consistently make wise policy choices in four areas: (1) encouraging private enterprise through market-oriented mechanisms; (2) recognizing the importance of good governance and a competent public administration; (3) opening economies to trade and investment; and (4) building capacity through investments in human capital and the transmission of best practices.

First, market-oriented policies are essential in order to benefit from today's increasingly interconnected global market. Above all, a country must have a sound monetary and fiscal foundation for economic stability. Encouraging competition among private firms is also critical, since innovation is the engine of growth. The widespread adoption of market-oriented mechanisms has generated unprecedented opportunities and important advances in human welfare over the last few decades, offering greater opportunity to more people than ever before. Contrast, for example, the sustained economic growth enjoyed by the United States and our partners in Europe and Japan over the past 50 years with the fate of centrally planned economies such as the former Soviet Union and North Korea.

Second, governments must take responsibility for creating the institutional conditions and incentives required to encourage productivity and individual enterprise. These depend on an entrepreneurial culture in which the rule of law, enforceable contracts, and stable and transparent government administrations exist. Corruption is still far too pervasive and remains an enormous barrier to both domestic and foreign investment, a tax on economic efficiency and social progress that poor countries can least afford.

Third, trade liberalization is essential. A paper by David Dollar and Aart Kraay at the World Bank shows that trade has been a major driver of economic growth for the last three decades. In the paper, Dollar and Kraay show that since 1980, per capita incomes of developing countries that have lowered tariffs and increased actual trade volume are closing the gap with richer countries, while "non-globalizers" are falling further and further behind.

Yet liberalization alone is not sufficient. It must be complemented by policies aimed at fostering private sector enterprise in order to generate increased employment and provide the basic infrastructure required by agricultural and other small-scale producers. A particularly strong correlation exists between rural and agricultural growth and poverty reduction. Policies that promote education and training will allow the poor to compete for the type of skilled employment demanded by open markets and will facilitate more rapid adjustment to the inevitable dislocation that accompanies change. Globalization should be embraced as an opportunity, not spurned as a potential threat.

While the international community has recognized the importance of countries of the Organization for Economic Cooperation and Development (OECD) reducing trade barriers to imports from the poorest countries, greater attention must also be given to the need for developing countries to reduce trade barriers among themselves. The average import duty between developing countries is 20 percent higher in agricultural products and three times higher in manufacturing than the barriers that protect the markets of OECD countries, for example.

Fourth, basic social services such as health and education are vital to enabling any population to participate in and contribute to economic activity. The recent history of the United States makes clear how crucial improved education and ready access to capital are. This is particularly true of the farm sector. As farmers learned new techniques and developed new machinery, output per unit of farm labor grew by more than eight times between 1948 and the 1990s. In contrast, agriculture value-added per worker in sub-Saharan Africa is lower now than it was 20 years ago.

EXTERNAL ASSISTANCE

Research has shown that when a country's policy environment encompasses the four elements discussed above, external assistance has a significant and positive impact. Yet over the last 50 years, the overall benefits of both bilateral and multilateral aid have been disappointing. This is particularly true in the poorest countries. This underscores the importance of concentrating assistance in countries committed to sound development policies that encourage increased productivity. Aid must be used wisely as part of efforts that are well targeted, well coordinated, and rigorous in measuring results.

MDB REFORM: THE CORE AGENDA

The World Bank and its regional counterparts have an important role to play in economic development. However, the work of the multilateral development banks (MDBs) has been far too diffuse. These institutions must focus on countries with a sound policy environment and on operations that raise productivity. Let me suggest three priority areas:

First, people need health, knowledge, and skills if they are to become more productive. But in recent years, education has accounted for only 7 percent of total World Bank lending. President Bush has called on all the MDBs to increase the share of funding devoted to education and to tie that support more directly to clear and measurable results. The president has also proposed that the MDBs dramatically increase the share of their funding provided as grants to the poorest and least creditworthy countries.

Second, MDB investments should help boost productivity in borrowers' economies and remove economic constraints that hamper progress. This can be done, for example, by improving infrastructure and the services needed to create vibrant rural economies, by strengthening the regulatory systems necessary to support competitive manufacturing and small and medium enterprises, by providing access to seed capital to start new businesses, and by helping establish the institutions and expertise nations need to benefit from trade. Third, the MDBs should step up efforts to promote good governance and to assist borrowers in managing and monitoring their public expenditures, improving service delivery, and ensuring accountability for public and donor resources. It is critical that the MDBs place greater priority on strengthening coordination among themselves and on ensuring that their own internal governance is transparent and above reproach. A more concerted effort should also be made to reduce administrative overload on borrowers by harmonizing donor policies to the highest appropriate standard.

THE HEAVILY INDEBTED POOR COUNTRIES INITIATIVE

The Heavily Indebted Poor Countries (HIPC) initiative provides a unique opportunity to improve the economic prospects of those poorest and most heavily indebted countries that are committed to sound policies. When combined with appropriate economic and social policies, HIPC debt relief can make an important difference. Twenty-three countries are now receiving HIPC relief. However, the ultimate success of HIPC will be measured not by the number of beneficiaries nor the level of debt relief received, but rather by the extent to which such relief contributes to human development and poverty reduction. Its tangible impact will depend on how freed-up resources are used to catalyze policy reforms. As President Bush has said, the United States has been, and will continue to be, a world leader on responsible debt relief.

We have begun to see noteworthy progress. Guinea has been pursuing a remarkable education reform program, with help from USAID and other donors, that has raised primary school enrollment rates in the past decade from 26 percent to a targeted 62 percent in 2001; the education budget will increase 39 percent this year as a result of interim HIPC relief. Tanzania has privatized virtually its entire banking system and strengthened its regulatory regimes. This has led to an increase in the number of banks from 2 to 19 (of which 12 are foreign owned) and sets the stage for greater competition and an increase in credit available to the private sector. Mozambique has abandoned Marxist economics and made a major commitment to private sector-led growth. Public enterprises now account for less than 20 percent of industrial output, compared to 66 percent in 1990, and economic growth is estimated to have returned to the 10 percent range in 2001 after devastating floods in 2000 drove growth below 3 percent. On January 1, 2000, the eight countries of the West African Economic and Monetary Union eliminated trade barriers among themselves and put in place a common external tariff that is both simpler and much lower than the national systems it replaces. As a result, trade within the eight countries is increasing.

CONCLUSION

While we do not have all the answers to development, we can and must do a better job by learning from our successes and our failures. We can be encouraged by the opportunities opened up by constantly evolving technology. The challenge we face is helping less developed countries seize those same opportunities.

A healthy global economy requires all countries to perform to their highest potential. A growing and increasingly open world economy provides the best possible foundation for the collaborative international efforts needed to address the serious economic and social challenges facing the poorest countries.***

FREEING TRADE TO COMBAT POVERTY

By Alan Larson
Under Secretary for Economic, Business, and Agricultural Affairs,
U.S. Department of State

Trade liberalization can be a powerful tool in fostering development and reducing global poverty, says Under Secretary of State Alan Larson. Free trade, he says, lowers the cost of basic necessities like food and clothing, discourages corruption, and allows democracy to develop and grow, leading to a better quality of life, especially for the poor.

One way developed countries can help emerging economies is to provide more access to their markets, Larson says. However, with trade among developing country partners now accounting for 40 percent of total developing country trade, the Doha Development Round of global trade negotiations will give developing countries an opportunity to lower their trade barriers at the same time as their neighbors, allowing them to more fully participate in the global economy.

Under Secretary Alan Larson

Countries that aggressively enter the global open market system prosper. Their political systems and societies become more open, offering new opportunities for their current citizens and for future generations. As President George W. Bush has said: "Free trade is the only proven path out of poverty for developing nations. When nations are shut off from the world, their people pay a steep price."

Liberalizing trade has a profound effect on growth and poverty because free trade opens economies to competition and societies to comparison. Free trade creates opportunities by allowing resources to flow where they are put to productive uses, raising standards of living. Free trade helps build open investment climates, discourages corruption, and welcomes new ideas, allowing democracy to take root and grow. Free trade lowers the cost of basic necessities like food and clothing, leading to a better quality of life especially for the poor.

Free Trade's Role in Economic Growth and Poverty Reduction

Economic growth is the primary means by which countries reduce poverty. Several very recent empirical studies by World Bank economists have concluded that developing countries that have lowered trade barriers and increased trade over the past 20 years have also experienced stronger economic growth.

These studies suggest that openness to trade leads to declining absolute poverty rates and does not increase income inequality. For example, developing countries that reduced barriers to trade during the 1980s and 1990s grew an average of 3.5 percent and 5 percent, respectively, on a per capita basis. Income inequality in those countries did not increase; rather, the incomes of the poor tended to correlate very highly with overall growth in gross domestic product.

Free trade's contributions to growth are not only quantitative, however. Open trade boosts the internal strength of economies by exposing domestic firms to sharper competition. Perhaps most importantly, vigorous participation in the world trading system, including following global trading rules, heightens the transparency and predictability of economic transactions. These effects often reinforce the attractiveness of developing country economic environments as destinations for foreign direct investment (FDI) and facilitates domestic capital mobilization.

Foreign direct investment is an increasingly important tool in financing development; FDI to developing and transition economies rose almost sevenfold between 1990 and 2000. FDI contributes to growth by increasing the size and soundness of a country's economic assets. FDI, in contrast to portfolio flows and bank lending, tends to be less attached to economic downturns and financial spillover and so is a more predictable and durable part of a country's asset base.

Leaving No Countries Behind

America's goal, in the words of President Bush, is to "include all the world's poor in an expanding circle of development." One of the most significant steps we can take to reach this goal is to put our full support behind the success of the Doha Development Round negotiations.

Developing countries have a large stake in this discussion: the developing world as a whole now ships some 45 percent of global exports. In the round, developing countries will gain even greater access to developed country markets and stand to make substantial income gains. For example, liberalization of agricultural trade, of intense interest to many developing countries, could provide developing country economies at least $100 billion in lost annual income. In addition, within an individual developing country, trade liberalization will help households, who often pay too much for basic goods, and its own entrepreneurs, who often see capital and labor bid away by favored, protected industries.

Further, multilateral trade liberalization is more important than ever for developing countries due to the burgeoning trade relationships among them, which now account for 40 percent of total developing country trade. However, it is these trade flows that often face the highest trade barriers. Despite important reforms, developing country trade protection remains high and may have increased in the 1990s. Average developed country tariffs on manufactured goods (including textiles and clothing) now stand at 8 percent, while average developing country tariffs on the same items are 21 percent. The multilateral trade round will give developing countries an opportunity to lower their trade barriers at the same time as their neighbors, allowing them to participate more fully in the global economy.

Despite the benefits of a new round, some developing countries have real concerns. Institutional weakness, scarce policy resources, and a general lack of experience in trade policy can make it difficult for poor countries to implement the wide-ranging and sometimes complex legal and policy obligations undertaken by World Trade Organization (WTO) members. The United States is well aware of these roadblocks and is prepared to work in partnership to overcome obstacles to the integration of developing countries into the trading system.

Market Access

One of the most fundamental ways developed countries can assist is to widen access to our markets. In 2000, Quad members — the United States, the European Union, Japan, and Canada — agreed to lower trade barriers to the least developed countries (LDCs). Also in 2000, the United States initiated the African Growth and Opportunity Act and enhanced our Caribbean Basin Initiative. These two preference programs, combined with improvements in our Generalized System of Preferences and market-opening measures under the Uruguay Round of trade talks, have eliminated most tariffs and quotas on goods from least developed economies. As a result, U.S. imports from LDCs have grown by 50 percent in the last four years.

However, preference programs for least developed countries are not a panacea, and they will not take a huge bite out of global poverty since more than 80 percent of the world's poor live in larger developing countries such as China and Egypt that do not benefit from these programs. To lift all of the poor out of poverty, the capacity of these countries to trade must be strengthened.

Electronic components factory in South Africa: Processed exports face especially high tariffs.

Building Trade Capacity

Many developing countries need assistance in building adequate and effective trade capacity. Developed countries and multilateral institutions must do more to sbuild trade capacity within and among countries while integrating trade into comprehensive and coherent economic development strategies.

One way to ensure that adequate attention is given to trade within economic development policy is to mainstream trade into national development plans and poverty reduction strategies. At the 2001 International Monetary Fund (IMF)/World Bank spring meetings, the Bank committed to mainstream trade capacity-building into its country assistance strategies and to support borrowers' efforts to incorporate trade capacity-building in Poverty Reduction Strategy Papers (PRSPs). The PRSPs are economic development strategies drawn up by the debt relief recipients and reviewed by the Bank.

Since 1996, the WTO has cooperated with other multilateral institutions to assist the least developed countries in building the capacity to trade. The Integrated Framework, supported by the WTO Secretariat, coordinates efforts of six core international agencies that deal with trade and/or technical assistance to ensure that programs are complementary. The United States has given $200,000 to the Integrated Framework Trust Fund.

In 1995, the WTO created a Global Trust Fund to assist least developed countries to participate actively in the WTO and take advantage of new opportunities in international trade offered by WTO agreements. In 2001, the United States gave $1 million and has pledged to provide another $1 million in 2002. Further, in November 2000, the United States provided $650,000 to the WTO to assist many sub-Saharan countries to address WTO issues and $640,000 to the World Bank for a project on research and institution-building for sanitary and phytosanitary standards and product standards development in Africa.

The United States also uses bilateral assistance programs to strengthen developing country capacity to trade. In the last three years, the United States has contributed approximately $1.3 billion to programs that will help build the capacity to trade. These programs address a wide range of needs — from programs to strengthen governance and the rule of law, to workshops in trade negotiation and regulatory policy. Truly integrating trade liberalization into country strategies increases the chance that new areas for growth opened by liberalization will be identified and used fully.

Increasing Human Capacity Both developed and developing countries need to devote more attention and resources to nurturing human capacity, especially through basic education. Education boosts individuals' abilities to make informed choices, giving them more tools to combat poverty and the flexibility to adapt when change is warranted. The more flexible an economy and its workers are, the more a liberalizing country can take advantage of growth opportunities brought by freeing trade. In the last two fiscal years, United States' funding for international basic education assistance programs has increased almost 70 percent. In addition, President Bush has called upon the multilateral development banks to expand education funding. The role of education in development will also be a topic of the 2002 G-8 Summit in Kananaskis, Canada. The Doha Development Round has the potential to improve significantly growth and development throughout the world. We need to build on the positive experience of Doha, especially as we explore development issues — including trade and investment — at the Financing for Development conference in Monterrey and the World Summit on Sustainable Development in Johannesburg. We need to continue to engage with and listen to all our trading partners, at all levels of development, and devise strategies that respond to their individual trade and development needs. We also should continue capacity-building efforts to help developing countries address problems in negotiating or implementing agreements.

President Bush has reminded us that "free markets and open trade are the best weapons against poverty, disease, and tyranny." By working together to help ensure a cooperative and development-oriented focus to our negotiations, we can bring the process launched at Doha to a truly successful conclusion that benefits all.***

WORKING FOR A BETTER GLOBALIZATION

By Horst Köhler, Managing Director, International Monetary Fund

The fight against world poverty depends on poor countries establishing peace, rule of law, and good governance, International Monetary Fund (IMF) Managing Director Horst Köhler says. He adds that poor countries' efforts to reduce poverty should be matched by strong, fast, and comprehensive support from the international community. But, he says, poor countries need also to develop the legal and institutional capacity to borrow and lend safely.

The following are excerpts from Köhler's remarks to the Conference on Humanizing the Global Economy sponsored by the Canadian Conference of Catholic Bishops, El Consejo Episcopal Latinoamericano, and the United States Conference of Catholic Bishops in Washington, D.C., on, January 28, 2002.

Horst Köhler

The critical debate on globalization has been subdued since September 11. But the important issues it raises have not gone away and need to remain at the core of national and international policy agendas. The tragic events of September 11 have surely widened public understanding and shaken the complacency that led many to behave as if developments in remote countries and societies could be safely ignored.

Globalization — the process through which an increasingly free flow of ideas, people, goods, services, and capital leads to the integration of economies and societies — is not simply being imposed upon us. It is the product of forces for change that are deeply embedded in human nature — the desire for a better life, for new and better ways of doing things, and for expanded horizons and freedom of choice. It also reflects political choices in favor of more openness, which for the most part has gone hand-in-hand with the consolidation of democracy.

The past 50 years have been a period of growing economic and political freedom and rising prosperity. Global per capita income has more than tripled, and most of the world has experienced major improvements in literacy and life expectancy. Among the biggest gainers have been developing nations that are home to half of the world's population, which moved to take advantage of the opportunities of the global economy over the past two decades. These countries — whose ranks include Brazil, Chile, China, India, Korea, and Mexico — were able to double their share in world trade and raise per capita incomes. Their experience demonstrates that integration into the global economy can bring major advantages for developing countries.

But there is equally clear evidence that far too many of the world's people have been left behind. The disparities between the world's richest and poorest nations are wider than ever. Nearly 3 billion people who are trying to survive on less than $2 a day deserve the chance for a better future. Poverty is not just the greatest challenge to peace and stability in the 21st century, but our greatest moral challenge as well.

Trying to turn back the clock and reverse the process of globalization will not solve the problems of the world. Integration into the global economy still has a huge potential for improving human welfare. Realizing this potential obliges us to work for a better globalization — one that is more inclusive and seeks a better balancing of the risks and benefits. There is an urgent need to develop a political concept for one world, to guide and shape the process of globalization.

Most of all, globalization requires cooperation along with institutions to organize many of its forms. And to engage the true commitment and support of the world's people, that cooperation needs to be based on shared principles and rules. What is most important? First, all countries need to have trust that their voices will be heard and their interests recognized. Second, there must be trust that each country will live up to its own responsibilities and take into account the effects of its actions on others. Third, international decision-making should be seen to respect national and local responsibilities, religions, cultures, and traditions. Wherever possible, global action should be built upon a foundation of inclusion, broad participation, and local initiative. And finally, a global economy needs global ethics, reflecting respect for human rights but equally recognizing personal and social responsibility. As the world has become more integrated and interdependent, the scope for applying such fundamental values has widened.

THE IMF AND THE WORLD BANK

The Bretton Woods institutions — the IMF and World Bank — were created in 1944 to help restore and sustain the benefits of global integration by promoting openness, trust, and international cooperation. And despite all the criticisms, if these institutions did not already exist they would need to be invented. They pursue a common objective of promoting broadly shared prosperity, with a good division of labor and close partnership to increase their joint effectiveness. The World Bank thus concentrates on long-term investment projects, institution-building, and assistance in dealing with social, environmental, and poverty issues. For its part, the IMF focuses on the functioning of the international monetary system and on promoting sound macroeconomic policies as a precondition for sustained growth. Private capital flows have become the most important source of financing for growth, productivity, and job creation. But they can also be a source of volatility and crisis. This obliges the IMF to help countries take advantage of the opportunities of global capital markets while minimizing the risks, and to work for the stability of the international financial system.

The greatest assets that the Bretton Woods institutions have in fulfilling these objectives are their global membership and their culture of consensus-building, trust, and mutual respect. Particularly since the Asian crisis, the IMF is in a process of reform and change designed to strengthen its cooperative nature and improve its ability to serve member countries. The IMF has gone from being a relatively closed organization to one that is overwhelmingly open and transparent, as anyone who has looked at our Internet Web site over the past year can testify. Equally, we are encouraging and promoting transparency in member countries. The IMF has led a conceptual sea-change in economic governance, based on using standards and codes for sound economic and financial management and corporate governance, along with its annual surveillance of member countries to create a level playing field for the global economy. We are working on a comprehensive strategy to safeguard the stability and integrity of the international financial system as a global public good. In particular, the joint IMF-World Bank Financial Sector Assessment Program (FSAP) has become the core of our efforts to strengthen domestic financial sectors, combat money laundering, and help to thwart the financing of terrorism. We are taking steps to streamline IMF conditionality and make room for true national ownership of reform programs. Conditionality remains essential because good policies are necessary for stability and growth. But this does not mean we should lecture or dominate our members. Sustained progress of programs requires that countries take responsibility for them, which means they themselves must believe that reforms are in their best interest.

Finally, more than ever, the IMF has become an institution that listens and learns, and not just from its member countries.

RESTORING GLOBAL GROWTH

The year 2001 was a very difficult one by any standard. Even before September 11, economic activity was weakening throughout the world; the terrorist attacks and their aftermath have deepened the risks and uncertainties. The good news is that, due also to the initiatives taken by the IMF, both individual economies and the international financial system as a whole have so far demonstrated great resilience. The bad news is that the global downturn has made life even more difficult for vulnerable countries, while also threatening to further marginalize the world's poorest nations. This is why I have called strongly for the industrial economies, in particular, to do everything in their power to restore the momentum of global growth.

A market economy, integrated into the world, must possess healthy institutions and a supervisory and regulatory framework that safeguards competition, promotes equity, and fosters good sovereign and corporate governance. And this means also that the IMF has to cooperate even more effectively with the World Bank and the regional development banks, which are mainly responsible for institution-building and social protection.

I do think it is right for the IMF to remain strongly engaged with the world's poorest countries, because it is a universal institution dedicated to helping all its members. As a guidepost for reducing world poverty, we have joined other nations and international institutions in supporting the United Nations' Millennium Development Goals for 2015. While these goals are ambitious, in my view they can and must be achieved. But for this to happen, the international community can't continue with "business as usual."

The fight against world poverty will be successful only if it is based on the political will and capacity of "self-help" — the efforts of poor countries to establish peace, the rule of law, and good governance at home and to unlock the creative energies of their people. It requires investment, not least in human capital and infrastructure, as well as economic policies and institutions that encourage private initiative and healthy integration into the global marketplace. I am encouraged to see this approach reflected very concretely, for instance, in the New Partnership for Africa's Development (NEPAD). The greatest asset we have in fighting world poverty is the political will and determination in developing countries to tackle these issues.

THE PRSP PROCESS

To make the fullest possible use of this asset, the IMF and World Bank have worked to establish a country-led process for the development of poverty reduction strategies. Earlier this month, our International Conference on Poverty Reduction Strategies brought together several hundred representatives from the official community and civil society to assess the first two years of experience with the PRSP (Poverty Reduction Strategy Papers) process. The conference demonstrated that the PRSP approach is accepted as a promising way to design poverty reduction strategies that can command broad support both within a country and among its external development partners. But participants were troubled by the inherent tensions in the process and the administrative burdens that it generates. The proposals they made at the conference will be key inputs for our executive board's review of the PRSP process and the IMF's Poverty Reduction and Growth Facility in March. I see clear room for further improvement, not least through deeper analysis of the root causes of poverty and increased technical assistance from the IMF and the donor community to build institutional capacities.

But self-help, while essential, is only half of the equation. To bring about a decisive reduction in world poverty, the efforts of poor countries must be matched by stronger, faster, and more comprehensive support from the international community. Thanks in no small measure to the strong interest and support of civil society and faith organizations, it was possible to build consensus among wealthy nations to finance increased debt relief for heavily indebted poor countries. Now the IMF and World Bank are spearheading an effort under the enhanced HIPC Initiative that has already provided $36 billion of debt relief to 24 poor countries. (World Bank President) Jim Wolfensohn and I have pledged every effort to make it a success by working to see that the resources are used effectively for poverty reduction and by doing our utmost to ensure that the benefits reach the remaining eligible countries — including difficult post-conflict cases.

TRADE AND AID

But debt relief is no panacea, and the campaign for debt cancellation must not detract from decisions that are needed for durable progress in reducing world poverty. Countries will not escape the poverty trap without developing the legal and institutional foundations of a modern economy, including the ability to borrow and lend safely. Moreover, the resources available from further debt relief or outright cancellation do not measure up to the potential for action by the wealthy societies in the key areas of trade and aid. As we prepare for the United Nations Conference on Financing for Development in Monterrey and the Johannesburg Conference on Sustainable Development, I would urge the faith-based and civil society organizations to bring the same energy and commitment to a new campaign for increased aid and better access to international trade that they have shown in advancing the case for debt relief.

Trade liberalization is the best form of help for self-help, both because it offers an escape from aid dependency and because it is a win-win game. In my view, the true test of the credibility of wealthy nations' efforts to combat poverty lies in their willingness to open up their markets and phase out trade-distorting subsidies in areas where developing countries have a comparative advantage — as in agriculture, processed foods, textiles and clothing, and light manufactures.

I am convinced that globalization provides the incentive, the obligation, and the opportunity to make the world a better place for all its people.

And so I urge you to keep pricking the world's conscience, to keep looking for practical ways to put solidarity into action — not least by pressing for action on increased aid, trade, and more rapid structural change in the advanced economies. The IMF wants to be a good catalyst in that partnership.***

Note: *The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. Department of State.*

Alleviating Poverty and Hunger In the 21st Century

By Andrew S. Natsios
Administrator, U.S. Agency for International Development

With 80 percent of financial flows to the developing world now coming from private sources, the U.S. Agency for International Development (USAID) is changing the way it does business, focusing on public-private partnerships, economic growth, agriculture, trade, health, democracy, conflict resolution, and humanitarian assistance, says Andrew Natsios, USAID administrator.

Natsios says he hopes that the UN Conference on Financing for Development this March in Monterrey will help focus international attention on new and effective approaches to reducing poverty, ending hunger, and improving people's lives.

Andrew S. Natsios

The U.S. Agency for International Development is the U.S. government's principal institution working to fight poverty through economic growth, end hunger through increased agricultural production, and prevent conflict in developing countries around the world. USAID extends assistance to people recovering from disaster, trying to escape poverty, and engaging in democratic reforms.

Our work with government and private partners worldwide has yielded impressive results — even as the world's population doubled from 3,000 million in 1960 to more than 6,000 million today. In the past 30 years, the percentage of people living in absolute poverty has been cut almost in half. The majority of the world's citizens today can provide themselves and their families an adequate standard of living. Most of the world's population now live in countries that have embraced market-based economic systems and democratic forms of government.

In the past 50 years, infant and child death rates in the developing world have been reduced by 50 percent, and health conditions around the world have improved more during this period than in all previous human history. We helped eradicat e smallpox worldwide and are close to eliminating polio. Literacy rates climbed from 35 percent to 70 percent in the past 30 years, and primary school enrollment has tripled.

In one sense, the global community has succeeded remarkably in assuring that coming generations will be better off than previous ones — healthier, more prosperous, and capable of generating further improvements in the quality of life through their innovations and investments.

CHALLENGES OF POVERTY AND HUNGER

But there is still much left undone. More than 1,200 million people live on less than a dollar a day. More than 800 million people face chronic hunger that prevents them from leading healthy and active lives. More than 113 million children are not in school — and many of these face abusive working conditions, even slavery. An estimated 40 million people worldwide are infected with HIV/AIDS, leaving millions of children orphans and threatening already fragile health and social systems.

Nearly two-thirds of the countries with USAID field missions have been ravaged by civil conflict over the past five years, in some cases destroying years of economic and political progress, demolishing health and education systems, and driving away affluent and educated people.

Poverty and hunger are great challenges. As Americans, we have both a self-interest and a moral imperative to confront them. USAID helps fulfill these obligations by working to increase incomes and reduce hunger through broad-based economic growth and agricultural development programs, in combination with programs in health, education, and democratic governance. From decades of experience, we know that our coordinated development programs, carefully implemented, can over the long term improve real incomes and increase food security in a sustainable manner.

CONFERENCE ON FINANCING FOR DEVELOPMENT

In March 2002, the nations of the world will gather at Monterrey, Mexico, for the United Nations Conference on Financing for Development. The United States looks forward to participating in this important conference and focusing international attention on new and more effective approaches to reducing poverty, ending hunger, and improving people's lives.

In order to achieve these goals, we need to strengthen our official assistance programs to use scarce budget and human resources more effectively. But we also need to recognize and incorporate the reality that in the 1960s, when much of our development theory and practice was established, more than 70 percent of all financial flows from the United States to developing countries came in the form of official development assistance (ODA). Much has changed since then, and we must adapt to new realities rather than stay fixated on 20th century notions. Today, 80 percent of these financial flows comes from non-official sources — private capital, philanthropy, and personal remittances. As a result, an important part of our work today is done in conjunction with private firms, nongovernmental organizations, foundations, universities, think tanks, and private voluntary organizations that are deeply engaged in the developing world. In the 21st century, the measure of development finance must be the total flows, private and public, that are available to the least developed countries.

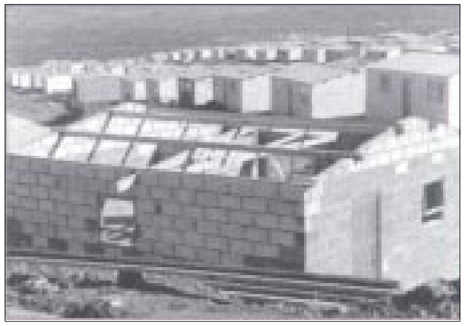
FOUR PILLARS OF USAID

In recognition of this new reality, USAID is fundamentally changing the way it does business by focusing on four "pillars": Global Development Alliance; Economic Growth, Agriculture, and Trade; Global Health; and Democracy, Conflict, and Humanitarian Assistance.

Global Development Alliance. In recent years, the paradigm of foreign assistance funding has changed drastically. The globalization of the world economy has meant that governments, while still essential, are not the only institutions through which public services are provided. The role of religious institutions, nongovernmental organizations, private foundations, universities, and the private market economy in providing services and accomplishing public objectives has dramatically increased.

U.S. organizations and companies want to and already do help less fortunate people worldwide, but many organizations are not prepared to provide assistance to developing countries effectively. Similarly, USAID has not been organized to work closely with private institutions and the resources they bring to the developing world in a coordinated manner. The Global Development Alliance pillar will change this by actively seeking out partners willing to commit real resources — funding, information, and personnel — to support development programs. With these partners, we will build alliances that target specific development objectives and, in so doing, pool private funds from foundations and corporations with public resources to accomplish those objectives.

Economic Growth, Agriculture, and Trade. This pillar highlights the interrelationship and interdependence of economic growth and agricultural development, international trade, environmental sustainability, and education — with the ultimate goal of creating and cultivating viable market-oriented economies. Given that more than 70 percent of the world's poor people live in rural areas and depend on agriculture for their livelihoods, USAID is placing particular emphasis on agricultural development to raise incomes, reduce poverty, and alleviate hunger.



USAID South Africa

L. Lartigue/USAID Guinea

USAID assistance in poverty alleviation. ***Top left:*** *Financing programs help communities build better houses and better life by South African housing construction. Below: Participants in Guinea's HIV/AIDS youth radio show.*

Global Health. This pillar includes maternal and child health, nutrition, women's reproductive health, HIV/AIDS, and programs that address infectious disease such as malaria and tuberculosis. These are global issues with global consequences: the health of a population directly affects its productivity, and unchecked diseases in other countries pose threats to our own.

Democracy, Conflict, and Humanitarian Assistance. This pillar recognizes USAID's world leadership in its ability to respond to natural and man-made disasters. This pillar also recognizes that responding to disasters is not enough: we must learn to prevent conflicts that lead to humanitarian crises before they happen and help people rebuild better after such crises. New approaches to crisis and conflict analysis and to assisting conflicting parties to resolve their issues peacefully will be integrated within USAID's democracy and governance programs.

Our new approaches and strategies will enable USAID to combine our programs and resources with substantial private resources to fight poverty and hunger in the world's poorest countries. Our goal is to help poor people improve their lives and build societies that can become stable and secure trading partners. In so doing, USAID serves America's foreign policy objectives and reflects the deep humanitarian instincts of the American people. The result will be a world that is safer, more prosperous, and freer than ever before.***

DEMOCRACY, GOVERNANCE, AND THE MARKET

By John D. Sullivan
Executive Director, Center for International Private Enterprise

There is no truth to the belief that markets will spontaneously emerge if government stops intervening in the economy, says John D. Sullivan, head of the Center for International Private Enterprise. Government institutions and self-regulating organizations must play key roles in ensuring that rules are fair, apply to all, and are enforced, and that the process is transparent. The business community must do its part, he says, by eliminating the corruption that is so devastating to economic growth and poverty reduction.

Since the early 1980s, there has been an unprecedented trend toward democracy and market-based economies. Nonetheless, much remains to be done to reinforce this progress and prepare nations for the political and economic realities of the 21st century, including globalization. Even long established democracies such as Colombia, Peru, and Venezuela have seen their political and economic stability threatened. Other countries, including Turkey, Indonesia, and Ukraine, face severe pressure as they attempt to establish democratic rule-of-law societies.

Contemporary history has shown that countries with democratic, market-based systems are best equipped to respond to the challenges of globalization. Three aspects of democracy have proved to be crucial to long-term economic and social development.

- A stable democratic system is the best guarantor of political stability, which is essential for long-term economic growth.
- Democratic practices such as transparency and accountability are essential for effective and responsive government and for efficient and prosperous economic activity.
- Sound legal and regulatory codes backed by the rule of law must exist for business to thrive in a market economy.

STRENGTHENING DEMOCRATIC GOVERNANCE

Experiences of the 1980s and 1990s demonstrate that failure to incorporate democratic governance as part of economic reform seriously jeopardizes the reform agenda. For much of the last 20 years it was fashionable to speak of the Washington Consensus, a reform program based on macroeconomic stabilization, fiscal reform, and other adjustments to economic policy. Recent developments, especially in Eastern and Central Europe as well as in Indonesia and Argentina, demonstrate the limits of this approach. Equal attention must be paid to the key institutions in society and to the process through which government decisions are made. Building democracy and a market economy has to begin by making sure that the rules of the system are open and fair for all.

The intellectual foundations for efforts to build a broader and more comprehensive democratic reform agenda stem from the field of New Institutional Economics developed by Ronald Coase and Douglass North, who won the Nobel Prize for their work. The institutional approach simply says that rules are important in conditioning outcomes. Put more elegantly, the success or failure of any effort to achieve a long-lasting transition to democratic market-oriented systems depends on the design and functioning of the institutional framework. To highlight the importance of institutions, let me point out three common myths about the relationship between the state and the market.

The first myth is the belief that once private enterprise constitutes a substantial portion of an economy, it has become a market economy. History abounds with examples where this has not been the case. The Philippines under Ferdinand Marcos and Indonesia under Soeharto are classic examples of economies that were capitalist based on private enterprise. But they were not open-market systems. Economists call this type of behavior rent seeking. The rest of us call it corruption and cronyism. The greater the degree of systemic corruption in a society, the less its economy functions on market principles.

Many different types of market economies are possible, and there are real distinctions among institutional structures in different countries. But all market economies feature a competitive system in which the rules are the same for all participants. Only a fully functioning democracy can sustain such a system over time.

The second myth is grounded in a misconception that the business community or the private sector in general is a homogeneous monolith that either supports or opposes certain policies or leaders. This is not the case. Most countries have several business communities, each with its own interests and objectives. In the economy of a single country there can be the state sector, private sector, and informal sector. Within the private sector there might be firms and entrepreneurs who work mostly in international trade, while others produce solely for the domestic market. Clearly, these two groups will not always support the same policies. Nor will they always favor market-oriented reform.

Firms created behind protectionist trade barriers — and with strong links to and benefits from government — tend to support the status quo. Often they also are quite anti-democratic. Conversely, firms that have been locked out of government favors, small entrepreneurs, and those engaged in international trade often lead the demand for change. Because the business community is so diverse, it would be wise for these firms and entrepreneurs to form partnerships with business associations, think tanks, foundations, and other organizations with a vested interest in an open economy and a democratic political system.

The third myth is the most dangerous. It is the belief that markets will spontaneously emerge if government stops intervening in the economy. This is far from true. The government must

establish consistent, fair rules and laws so a strong market economy can emerge. Government institutions and self-regulating organizations have key roles in ensuring that rules are enforced. Credible, fair bank supervision is one example.

Without binding rules and structures that govern all players, anarchy follows. Business then becomes simply "casino capitalism" in which investments are only bets that people will keep their word, that companies will tell the truth, that workers will be paid, and that debts will be honored.

FOREIGN ASSISTANCE AND DEVELOPMENT

Getting the relationship right between government departments, business organizations, civil society, and market institutions is vital. Foreign assistance programs run by donor countries and international financial institutions must seek to achieve concrete objectives, such as:

♦ Promoting development of the laws and institutions necessary for open, market-oriented economies, including those covering property rights, antitrust and competition, banking, and accounting standards.

♦ Increasing citizen participation in the democratic process by allowing business groups and other parts of civil society to participate in the day-to-day decision-making process.

♦ Creating open systems of feedback to government, including legislative hearings, regulatory review panels, citizen advisory panels, and other communication channels between society and the state.

♦ Fostering private voluntary organizations and freedom of association.

♦ Building support for— and understanding of — the rights, freedoms, and obligations essential to a democratic private enterprise system.

♦ Enhancing an entrepreneurial culture by providing incentives to innovate, save, invest, and launch new firms.

♦ Simplifying compliance systems to enable micro and small businesses to join the legal, or formal, economy and mainstream of society.

♦ Expanding access to business and economic information necessary for informed decision-making by all parts of civil society.

STRENGTHENING THE ROLE OF BUSINESS ASSOCIATIONS

As advocates for the private sector, business associations in industrialized nations play a vital role in encouraging good governance and sound policy-making. In most emerging market economies, however, such associations are only beginning to realize the importance of "strength in numbers" and why it is in the business community's interest to promote a democratic process. Mobilizing small and medium-sized enterprises is especially important to create the critical mass that drives reform.

One tool to affect public policy is a national business agenda that identifies policy reform as the highest priority for the business community in the near term. The agenda specifies the reforms in terms of laws and regulations and offers concrete suggestions for change. Key to the agenda is participation. Programs in countries as diverse as Egypt, Paraguay, Haiti, and Nigeria have followed similar steps:

♦ Meeting with members in open forums to identify barriers to business growth and job formation.

♦ Analyzing policies and forming recommendations.

♦ Publishing in the media to gain input from concerned parties.

♦ Formulating policy reform programs.

♦ Publicizing the agenda.

♦ Presenting the agenda to the president and key ministers in a national meeting.

♦ Ongoing advocacy directed at the government, including the executive and parliament branches.

The Nigerian Association of Chambers of Commerce, Industry, Mines, and Agriculture (NACCIMA) has used its agenda for several years to coordinate economic reform. In 1999, this task assumed critical importance due to the country's struggle to create a true democratic system after years of military rule. Given pressure on NACCIMA from both Nigeria's political transition and its continuing economic crisis, developing and publicizing the national business agenda demonstrate NACCIMA's remarkable ability in the face of considerable hardship.

The National Association of Businesswomen (NABW) in Malawi created a national call to action to redress grievances experienced by women entrepreneurs. The association held regional forums across the country to identify the major issues facing women, including lack of information and access to credit. From these meetings the NABW developed a national business agenda and advocated before government in suppor of legislative changes that would boost the growth of women-owned enterprises in Malawi.

REMOVING INSTITUTIONAL BARRIERS TO PARTICIPATION

Members of the informal sector produce legitimate products without proper permits or legal status because they lack the resources to comply with burdensome, excessive rules and regulations necessary to participate in the formal economy. In many countries, the informal sector can account for up to 50 percent of the official economy. Entrepreneurs are locked out of the formal economy and political process as they work in low-income, low-growth business activities. A large and growing informal sector results from fundamental flaws in government processes and is proof that a market system hasn't been created.

Hernando de Soto of the Institute for Liberty and Democracy (ILD) in Peru was one of the first to recognize the challenges the informal sector presents to political and economic reform. Lack of secure property rights is central to his thesis that millions of people are condemned to poverty and sidelined from their countries' political discourse. De Soto's path-breaking research literally changed the nature of the debate about markets and democracy. De Soto and his ILD team are building market institutions in such diverse settings as Egypt, Mexico, and the Philippines, and de Soto will soon be turning his attention to Russia.

COMBATING CORRUPTION TO SUPPORT DEMOCRATIC VALUES

Business communities in developing countries are realizing that corruption is costing them money and they must do something to eliminate it. Corruption not only economically hurts the business community and the citizens of developing countries, but it has a destabilizing effect on democracy and the general well-being of a nation. Combating corruption can bring about broad reforms and improve the functioning of governance.

The National Association of Entrepreneurs (ANDE) in Ecuador created a research and advocacy program targeted at eliminating opportunities for corruption. ANDE has focused not on past corruption or any particular group, but on the need to initiate reforms that will change the direction of business and institute clean governance practices.

ANDE's studies showed that since the Republic of Ecuador was founded more than 160 years ago, some 92,250 legal norms had been created — and 52,774 were still in force in 1997. The number of overlapping, unclear, and contradictory laws and regulations has created an environment of legal chaos, leaving the application and enforcement of laws to the discretion of bureaucrats. Since Ecuador is a civil code country its courts could not reconcile law or create precedents. ANDE recommended creating a seven-member judicial committee empowered to codify and reconcile existing law. ANDE's advocacy campaign succeeded so well that the judicial committee it recommended was included in Ecuador's new constitution.

Another approach to combating corruption is to help build the watchdog role of the media in society. The Center for International Private Enterprise (CIPE) has launched a network of 500 journalists throughout Latin America called Journalists Against Corruption, or PFC, its Spanish initials. PFC supports journalists dedicated to investigating and exposing waste and unethical conduct in government and corruption in all sectors of society. PFC is a network, clearinghouse, and service provider for these journalists and the organizations that support them. It encourages enhanced investigations and reports about corruption, offers investigative assistance, and advocates on behalf of journalists when they suffer reprisals. In 2000, protests from PFC resulted in the prompt release from jail of two Mexican journalists who had been reporting on corrupt practices and drug trafficking by the police.

PROMOTING SOUND CORPORATE GOVERNANCE

Another focal point is the promotion of sound corporate governance principles that attack the supply side of the corruption relationship. Since the high-profile scandals during the Russian and Asian financial crises, corporate governance issues have surfaced as key reform issues in developing countries and transition economies. One lesson learned from these crises is that weak or ineffective corporate governance procedures can create huge potential liabilities for individual firms and, collectively, for society. Corporate governance failures can be potentially as devastating as any other large economic shock. As M.R. Chatu Mongol Sonakul, former governor of the Bank of Thailand, remarked: "The Asian financial crisis showed that even strong economies lacking transparent control, responsible corporate boards, and shareholder rights can collapse quite quickly as investor's confidence erodes."

Even countries with few large firms may want to begin looking at the question of corporate governance since it is now being adapted to meet the needs of family-owned companies. Even more important are the privatized firms and those still in the public sector. Ensuring good standards of corporate governance in these areas greatly enhances the faith of the public in the integrity of the privatization process and helps ensure that the country realizes the best return on the national investment.

CONCLUSION

Combating corruption, fostering corporate governance, strengthening women's business associations, and reducing barriers to formality have created new opportunities. Each action serves as a focal point to push forward with market reforms and adopting democratic practices. Sound corporate governance requires a framework of market institutions as well as sound business practices based on democratic principles. Similarly, ensuring that women and entrepreneurs of modest means have access to the business system as participants and leaders helps ensure that an open market economy exists for all, not just for a favored few.

As Roque Fernandez, a brilliant former Argentine finance minister, once said: "The Cold War is over and the University of Chicago won." He was referring to the market-oriented economic reform agendas being pushed throughout Latin America and much of the rest of the world. I'm hopeful we can add critical new dimensions to this view by bringing about a broader and profoundly democratic agenda based on transparency, accountability, property rights, and other fundamental rules societies and economies can use to govern themselves.***

Note: *The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. Department of State.*

HOW DOES HIV/AIDS AFFECT AFRICAN BUSINESSES?

For African businesses to attract new investors, they must demonstrate a competitive advantage. In much of Africa, businesses already have a competitive advantage because labor is abundant, affordable, and productive. Countries inevitably compete against one another to attract investors. In turn, investors seek to locate their businesses in a country that has the most productive, lowest-cost workforce.

There are several mechanisms by which HIV/AIDS affects the international competitiveness of African businesses:

1. **Labor Supply.** AIDS deaths lead directly to a reduction in the number of available workers. These deaths occur predominantly among workers in their most productive years. As younger, less experienced workers replace experienced workers, worker productivity is reduced, which in turn results in a decline in international competitiveness.

2. **Profitability.** AIDS reduces the profitability of African businesses by both increasing the cost of production and decreasing the productivity of African workers. The loss of profitability clearly will reduce Africa's competitive advantage.

3. **Other Impacts.** AIDS can also affect African businesses in many ways that are difficult to quantify but that nonetheless can significantly affect competitiveness. For example, AIDS affects worker morale, labor relations, demand for output, and so forth.

Each of these impacts is discussed in greater detail on the following pages.

As already indicated, the objectives of promoting trade and increasing investment in Africa can be reached only if African businesses have an adequate supply of trained workers.

Figure 1 shows the percent of adults in Africa infected with HIV. It is currently estimated that at least one in 12 workers in sub-Saharan Africa is infected; for some African businesses, the ratio is as high as one in three. Most infected workers will become ill and die within seven to 10 years of becoming infected. The impact from losing so many workers will vary greatly as will the response of companies with several infected workers.

Most African businesses that have more than 10 employees have already seen at least one employee die of HIV/AIDS or currently employ infected workers. In some countries, the number of HIV infected employees has been devastating. For example,

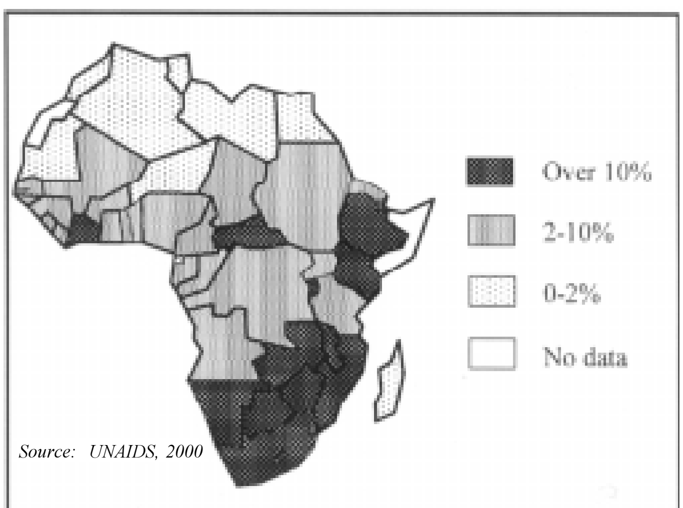
- In a sugar mill in South Africa, 26 percent of all tested workers were infected with HIV. Infected workers incurred, on average, 55 additional days of sick leave during the last two years of their life.
- In Botswana, it has been estimated that 35 to 40 percent of all teachers are infected with HIV.
- One study in Kenya on a sugar estate found that 25 percent of the estate's work-force was infected with HIV.
- Even in countries such as Ghana, which has a more moderate prevalence of HIV, businesses report significant numbers of both AIDS deaths and known HIV infections.

If businesses are to succeed financially, they require a steady supply of adequately skilled labor. For companies requiring skilled workers, it is likely that HIV/AIDS will present a particularly significant problem. Professionals are in short supply, and the costs required to train a new worker are often significant. One study demonstrated that firms took, on average, eight times longer to replace a deceased professional than a skilled worker.

Figure 2 illustrates the average age and sex of persons infected with HIV in Rwanda. This shows that the bulk of infections are occurring among young people who are just entering the workforce. This should be particularly worrisome to African businesses, as it demonstrates that the future supply of laborers and managers are likely to be the ones most affected by HIV/AIDS. At the same time, this figure shows the critical importance of spending money on HIV/AIDS prevention among young people. In order to safeguard the future labor supply, it is necessary to stress prevention programs for youth today.

HIV/AIDS can affect a company's profitability by either increasing expenditures or decreasing revenues. During the early stages of infection, managers may observe an unexplained increase in the number of sick days taken. The employee, his or her spouse, and children may incur higher health care costs, many of which are reimbursed by the employer. The productivity of the worker may decline, particularly when opportunistic infections such as tuberculosis (TB) become more common.

As the epidemic progresses, managers may observe within their workforce an increase of diseases, such as TB, sexually transmitted infections (STIs), skin rashes, diarrhea, and possibly even malaria. (Some evidence sug-gests that HIV-infected individuals are much more susceptible to serious bouts of malaria as a consequence of their suppressed immune system.) There is likely to be a corres-ponding increase in health care costs and sick days. Employees who are identified as being infected may be retained, moved to a less demanding position in the company, or fired out-



Source: UNAIDS, 2000

Figure 1. *Percent of Adults Infected with HIV in Africa. 1999*

right (with or without compensation) depending on corporate policy.

> "*NamWater, the largest water purification company in Namibia, announced recently that HIV/AIDS is 'crippling' is operations. They report high staff turnover due to AIDS-related deaths, increasing absenteeism, and a general loss of productive hours. The firm plans on examining the impact of the epidemic through a survey, and then designing further policies to mitigate the impact. The company already distributes condoms to their workforce and has trained 60 per educators.*"

A loss in revenues attributable to HIV/AIDS can occur when infected workers take leave due to illness, the need to care for other infected family members, or the need to attend the funerals of coworkers or loved ones — in north central Namibia, for example, it has been estimated that extension staff spend at least 10 percent of their time attending funerals. Productivity can also decline when workers in poor health come to work but are unable to produce at their normal levels.

The extent to which people living with HIV/AIDS will continue to be employed depends on the type of work performed and the existing policies of the relevant company. Presumably, employees involved in heavy manual labor will be less likely than desk workers to maintain their jobs when they become infected. Certain companies are required (by government mandate or union contract) to continue offering benefits. However, other companies are able to shift the burden to the government or the families of the employee living with HIV/AIDS.

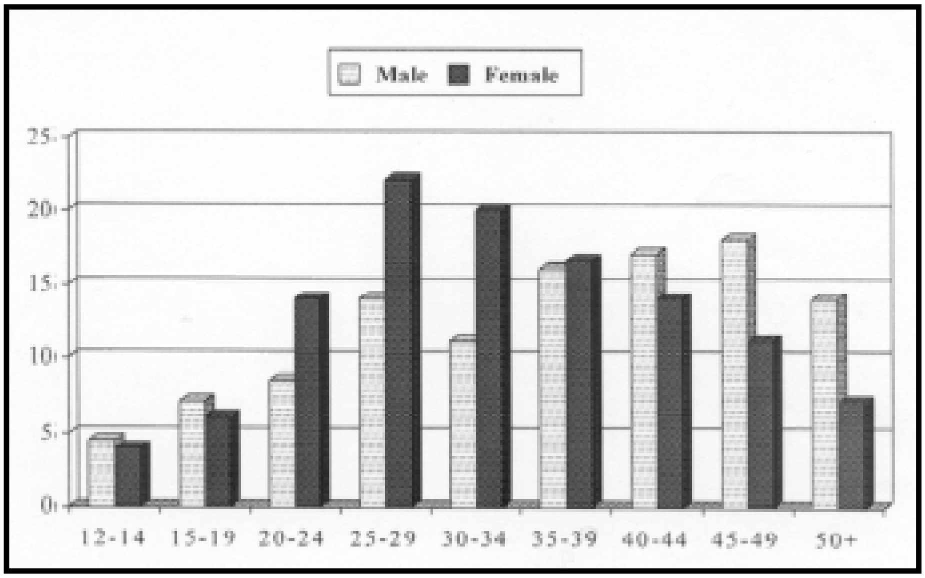


Figure 2. *HIV Prevalence by Age and Sex (Rwanda, 1997)*

increasing. Other companies with in-house health care services may find an increased need for services that may not immediately be identified as HIV-related.

Figure 3 indicates how quickly the number of AIDS-related deaths can increase. As more workers die of AIDS, it is likely that the private sector in Africa will observe increased costs in terms of death benefits. When a worker dies, many larger African companies offer a death benefit to the surviving family. In some cases, these death benefits equate to as much as three years of salary plus funeral-related expenses. Some companies also pay workers a death benefit if their spouse or children die. With the advent of the HIV/AIDS epidemic, companies have tried to mitigate the impact of benefit costs in various ways. For example, some African companies have reduced the amount of their contribution to funerals. Other companies have required funerals to be conducted on weekends to minimize the disruption to work.

Factors Leading to Increased Expenditures	Factors Leading to Decreased Revenue
Health care costs Burial fees Training and recruitment	Absenteeism due to illness Time off to attend funerals Time spent on training Labor turnover Reduced worker productivity

There are various ways in which expenditures are likely to increase when African businesses are affected by HIV/AIDS. An increase in health care costs is likely to be one sign that a company is experiencing the effects of the epidemic. Companies with private health insurance policies may find that their premiums are

The cost of recruiting and training new workers may also be substantial. The cost of replacing unskilled workers may be small, particularly when the rate of unemployment in the community that houses the business is high. As a result, most unskilled workers can be replaced within a week with little or no cost of recruitment. However, many African countries have a shortage of experienced senior managers. In this case, positions may be left unfilled for months or even years, which represents a significant cost to the company. Some companies even have had to resort to hiring highly paid expatriates following the death of senior managers.

As with recruiting, the cost of training and of general human resource development depends on the education and skill level required for the position as well as on the capacity of the pool of available workers. Training of unskilled workers often occurs over a period of a few days and does not generally represent a high cost to the company. The costs involved in training a director of finance, marketing, accounting, or sales, however, can be significant, particularly as such training is typically performed overseas. One international company, for example, trains its African senior managers in Europe over a period of four weeks. That same company indicated that when a managing director is lost due to AIDS or other reasons, the company incurs costs of $100,000 to recruit and train a replacement.

In the end, HIV/AIDS is likely to have a variable impact on expenditures depending on the

- prevalence of HIV;
- cost of training and providing benefits;
- availability of prevention activities; and
- extent to which the company can shift the economic burden of the disease from itself to workers, their families, and the public sector.

It should be noted that the data on the extent of the impact of HIV/AIDS on profitability remain controversial. Studies completed in South Africa and Kenya suggest that the economic impact of HIV/AIDS on profitability is likely to be substantial. Studies in Zambia, Malawi, and Botswana, however, indicate that the impact of HIV/AIDS on profitability was not substantial at the time those studies were carried out. Nonetheless, the loss of profits due to HIV/AIDS may be substantial for some African business. Therefore, it is critical that businesses become aware of the HIV/AIDS problem and take immediate steps to mitigate its impact. Such steps should include workplace peer education programs, condom distribution, voluntary counseling and testing, STI treatment, and treatment for HIV-related opportunistic infections.

The indirect impacts associated with HIV/AIDS are much more difficult to quantify but can nonetheless be an important factor in influencing investment decisions. The indirect impact incurred by African businesses refers to those outcomes that cannot be directly attributable to an increase in revenues or a loss in expenditures over the short term, but that still can create a significant burden for a company. For example, HIV/AIDS can result in a substantial decline in morale among workers. As employees watch many of their co-workers die of AIDS, they may adopt a generally fatalistic attitude toward life and work.

One indirect effect of absenteeism is that it results in extra work for other healthy employees who have to stand in for sick colleagues. In some companies, healthy employees were increasingly working extra hours to compensate for the time lost by their absent (sick) colleagues. In so doing, not only did companies pay more in terms of overtime, but interviewed workers also pointed out that they were overworked and exhausted. According to the engineering manager of one of the companies, working longer hours produced stress among employees and was responsible for a decline in both the quantity and quality of the final product (sugar). The spread of the epidemic can also contribute to worsening labor relations. If employees do not feel that their employers are providing adequate prevention or care services, the relationship may degenerate. In some cases, workers demand the dismissal of their colleagues when learning of their colleagues' illness.

"...Knowledge or even suspicion that one of their colleagues has HIV/AIDS is likely to trigger certain negative attitudes and behavioural responses towards that individual and how they perform their own tasks."[13]

Managers may not always be aware of the ways in which HIV/AIDS is affecting their business. One way to address the indirect effects of HIV/AIDS is to establish a workplace policy that explains how the needs of infected workers should be addressed. Such a policy should promote a positive relationship among infected workers, their employer, and their colleagues.

HIV/AIDS can also result in a significant decline in the demand for some products. HIV/AIDS is known to be a disease that tends to impoverish families, particularly because infected individuals are often the main income earners in the household. As a result, families end up earning less but spending more on health care, leaving few resources available to purchase other goods. Thus, most businesses are likely to observe at least some decline in demand for their products, especially the "luxury" goods that consumers can forego during difficult economic times. An article by Alan Whiteside, for example, noted that a South African furniture manufacturer (JD Group) projected an 18 percent reduction in its customer base as a result of HIV/AIDS. The study went on to conclude that consumers would incur a significant decrease in demand for furniture due to HIV/AIDS and its corresponding impact on household consumption.

In addition to the impact of HIV/AIDS on particular businesses, HIV/AIDS can influence national economies. Such an impact can be particularly devastating to the objective of increasing investment, for investors seldom invest in countries with declining economies. Various methodological issues and features of developing country economies make detection of macroeconomic impacts difficult. Initial studies regarding the potential impact of HIV/AIDS on macroeconomic growth have generally not been conclusive, with some studies in Botswana and Tanzania showing that the change in per capita income would be minor.

However, as the epidemic has progressed, economists have tended again to raise questions about the potential macroeconomic impacts of HIV/AIDS. A Kenyan analysis indicated that HIV/AIDS would produce a significant impact, with predictions that HIV/AIDS would leave the Kenyan economy one-sixth smaller than it would have been in the absence of HIV/AIDS. A study of African countries in 2000 suggests that HIV/AIDS has reduced the growth of per capita income by 0.7 percent per year; in malarial countries, the rate of growth was further lowered by 0.3 percent. For countries with HIV/AIDS prevalence levels above 20 percent, GDP is estimated to be 2.6 percentage points less per year. The most recent economic analyses have therefore indicated that the epidemic may be affecting growth to a much greater extent than earlier predicted. A recent study found that the impact of the AIDS epidemic in South Africa could be "substantial." By the year 2010, the level of GDP could be lower by 17 percent due to HIV/AIDS while the level of per capita GDP could be lower by 7 percent. About half of the decline is attributable to the increase in current government spending to pay for health care associated with the epidemic; another third of the decline is attributable to lower productivity.

It appears that many African economies are already being affected by HIV/AIDS. Decision makers must be prepared to pursue policies at the national level that can mitigate social and economic impacts. This may include promoting policies that increase savings and encourage investment in specific types of

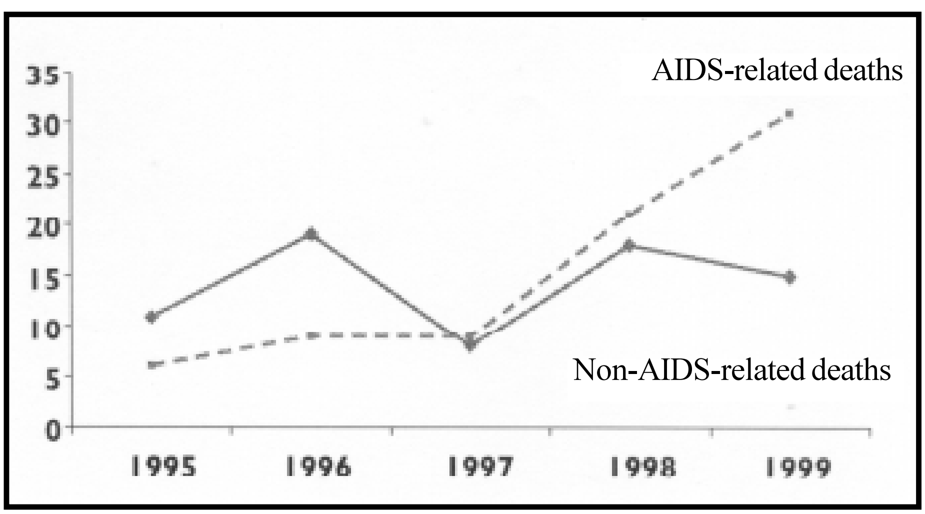


Figure 3. *Death Rate on a Sugar Estate in Swaziland*

human capital that might be in short supply (e.g., teachers, doctors, and so forth).

African nations have a potential competitive advantage over other regions of the world.

Impact on Investment

- Uncertainty over the impact of HIV/AIDS causes investor reluctance
- Decrease in the pool of national entrepreneurs
- General economic picture

Impact on Trade

- Reduced production due to increased costs to firms
- Decrease in workers with experience in export markets
- Transport of export products to marketplace

Conclusion

Businesses and governments must protect the vast majority of workers who are uninfected, offer appropriate support and services to those who are infected, and ensure that the impact of HIV/AIDS is mitigated.

Since HIV/AIDS tends to affect people in their prime working ages, the spread of the disease can prevent some nations from meeting their labor needs, particularly for businesses that require workers with significant training or work experience. The loss to HIV/AIDS of even one critical employee can cause a business to lose its competitiveness.

The spread of HIV/AIDS has resulted in the loss of profitability among African companies. This loss is attributable to increased expenditures on benefits such as health care, sick leave, and death benefits as well as to the additional cost of retraining new employees. In turn, revenues have been shown to decline when many workers become infected and their productivity declines. African businesses have also been affected more indirectly as a result of HIV/AIDS. For example, as workers become ill, companies have experienced a decline in morale, labor relations, and demand for the company's products. Lost profitability among African businesses may already be thwarting efforts to encourage foreign businesses to invest new money in the African continent.

Strong macroeconomic prospects are particularly important to investors who want assurance that they are investing in a country with a stable currency and a growing demand for their products. The most recent economic studies indicate that HIV/AIDS can negatively affect a nation's overall economic growth, which in turn is likely to hinder the success of trade and investment initiatives by limiting the number of businesses that are willing to invest in Africa.

To conclude, it is imperative to recognize that in most African countries, more than 90 percent of workers are not infected with HIV. In other words, despite the potentially dire consequences of HIV/AIDS, in most countries there is still time to prevent and to mitigate the impact of the epidemic. Also, we now know what works in terms of HIV/AIDS prevention. In countries such as Uganda and Senegal, prevention programs have succeeded in significantly reducing or limiting the spread of HIV infection. Finally, there are now unprecedented levels of commitment globally to addressing the issue of HIV/AIDS.***

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US ASSISTANT SECRETARY OF STATE FOR AFRICAN AFFAIRS AND OPIC PRESIDENT VISIT GHANA

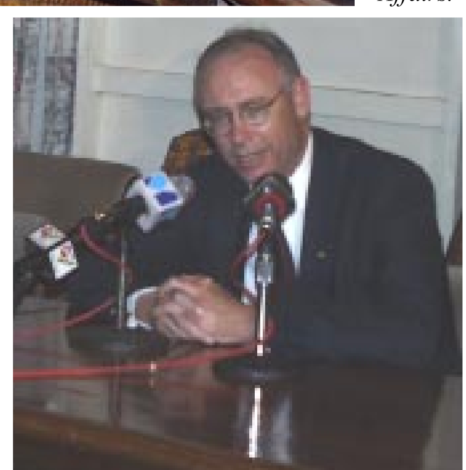
US Assistant Secretary of State for African Affairs, Mr. Walter H. Kansteiner III and Dr. Peter Watson, President and CEO of the Overseas Private Investment Corporation (OPIC) led a delegation of six private equity investment fund managers to Ghana, Kenya and South Africa. The purpose of the trip was to identify foreign direct investment opportunities. Various companies had the opportunity to present a variety of potential projects to them.

The private equity fund managers represented in the delegation was Zephyr Management, Modern Africa Fund Managers, Emerging Markets Partnership, African Fund Emerging Markets, Millenium Fund, and ERL Services.

Above: *U.S. Assistant Secretary of State Walter H. Kansteiner with President J.A. Kufuor in his office, at the Castle Osu.* ***Left:*** *Mr. Kansteiner answering questions from the press. With him (from left), are Ms. Nancy Powell, U.S. Ambassador to Ghana, Mr. Osei Adjei-Kwesi, Deputy Minister of Trade, and Mr. Hackman Owusu-Agyeman, Minister of Foreign Affairs.*

While in Ghana, Assistant Secretary Kansteiner also announced that Ghana has been certified to export textiles to the US under the African Growth and Opportunity Act (AGOA). Under AGOA, 35 African countries enjoy duty-free and quot-free trade status on virtually all exports to the United States. In the case of textiles, each country must undergo an additional certification process to guarantee that the textiles are made in Africa. Ghana is one of eleven African countries to have achieved the textile certification and the first in West Africa.

*OPIC President Watson also launched an African housing initiative.****



Dr. Peter Watson, explains a point to the press.

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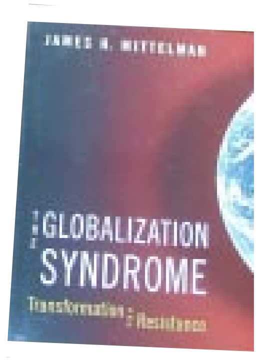
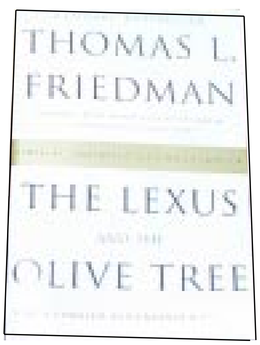


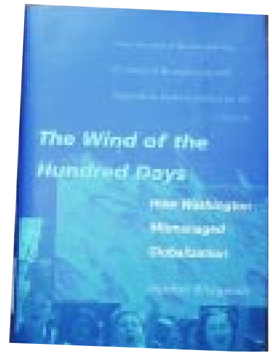
Mittelman, James H.
THE GLOBALIZATION SYNDROME: transformation and resistance
Princeton Univ. Press 2000 286p 49.50 cl ISBN 0-691-00987-2

Mittelman (School of International Service, American University) examines the interplay between globalizing market forces and the needs of society. He attempts to present a holistic and multilevel analysis, connecting the economic to the political and cultural, joining agents and multiple structures, and interrelating different local, regional, and global arenas. Although most of the literature on globalization is based on the experiences of the West, the findings in Mittelman's study are largely drawn from the non-Western worlds. Distinct from other approaches to globalization, this book considers the voices of the subjects of globalization, including those who resist this trend - - members of trade union movements, people on the fringes of society, the unemployed and underemployed in various parts of the world, and the marginalized, especially women and children in developing countries. The author does a great job of explaining the systemic dynamics of globalization, the myriad consequences, and varied responses



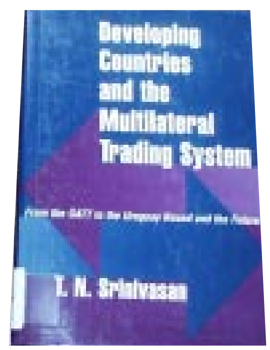
Friedman, Thomas L.
THE LEXUS AND THE OLIVE TREE: understanding globalization
Farrar, Straus and Giroux 1999 320p Bibliography Index 26.00 cl ISBN 0-374-19203-0

"In the Cold War, the most frequently asked question was `How big is your missile?' In globalization, the most frequently asked question is `How fast is your modem?'" So writes NEW YORK TIMES Foreign Affairs columnist Friedman (author of the American Bookseller Association award-winning FROM BEIRUT TO JERUSALEM), who here looks at geopolitics through the lens of the international economy and boils the complexities of globalization down to pithy essentials. Sometimes, his pithiness slips into simplicity. There's a jaunty innocence in the way he observes that "no two countries that both had a McDonald's had fought a war against each other, since each got its McDonald's." For the most part, however, Friedman is a terrific explainer. He presents a clear picture of how the investment decisions of what he calls the "Electronic Herd" - - a combination of institutions, such as mutual funds, and individuals, whether George Soros or your uncle Max trading on his PC - - affect the fortunes of nations. The book's title, in its reference to both the global economy (the Lexus) and specific national aspirations and cultural identity (the olive tree), echoes Benjamin Barber's JIHAD vs. McWORLD. Like Barber, Friedman takes note of what may be lost, as well as gained, in the brave new world: "globalization enriches the consumer in us, but it can also shrink the citizen and the space for individual cultural and political expression." The animating spirit of his book, however, is one of excitement rather than fear. Some of the excitement is the joy a good lecturer feels in making the complex digestible. Writing with great clarity and broad understanding, Friedman has set the standard for books purporting to teach Globalization



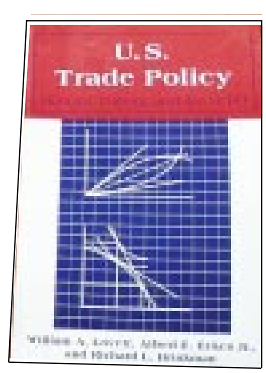
Bhagwati, Jagdish
THE WIND OF THE HUNDRED DAYS: how Washington mismanaged globalization
MIT Press 2001 372p 29.95 cl ISBN 0-262-02495-0

Was the Asian financial crisis "President Clinton's REAL scandal"? Bhagwati, Columbia University Professor of Economics and Senior Fellow at the Council of Foreign Relations, would argue that it was. His second collection of essays, lectures, and book reviews maintains that, in economic terms, the Clinton Administration's "admirable domestic policy success" has been matched by "abysmal foreign policy failure." Bhagwati blames the Asian collapse on the Clintonites' demand (influenced by the "Wall Street-Treasury complex") for free capital mobility as an essential element of free trade. He suggests that crony capitalism is not a uniquely Asian phenomenon: U.S. cronyism, he argues, produces forced opening of markets to U.S. cultural exports and excessive intellectual property protection. Bhagwati is particularly incensed at the "free trade must be fair trade" argument of anti-WTO demonstrators (and occasionally Clinton); he insists that issues such as worker rights and environmental protection should be addressed through appropriate United Nation bodies, not through trade negotiations. This is a constructive, if controversial, contribution to an important public policy debate.



Srinivasan, T.N.
Developing Countries and the Multilateral Trading System: From the GATT to the Uruguay Round and the Future. WestviewPress 1998 140p 39.00 ISBN 0-8133-3419-5

The purpose of this work is to assess the interaction between developing countries and the multilateral trading system from the end of World War II to the present and to place the achievements and failures of the Uruguay Round (UR) in that context. Both the history of the General Agreement on Tariffs and Trade (GATT) since its origin in 1947 and the failure soon thereafter to establish the International Trade Organization (ITO) that would have subsumed it are traced. A discussion on the extent to which the flaws of GATT have been rectified in the newly established World Trade Organization (WTO) follows; and a brief account of the UR agreement with a quantitative assessment of the benefits of trade barrier reductions and a critical look at the agreements on other issues are presented.



Lovett, William A.; Alfred E. Eckes, Jr.; Richard L. Brinkman
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This is a critical review of recent U.S. trade policies that have failed to enforce sufficient reciprocity and overall trade balance. The authors explore the history of U.S. trade policy and seek to explain the reasons behind the failure of that policy. Their emphasis is on trade history, a synthesis of trade theory outlooks (from Adam Smith to post-World War II globalist thought), and most recently structural asymmetries and free riding that distort trade-investment flows and cause chronic external deficits. The authors do not espouse either protectionist or laissez faire free trade perspectives, but suggest policies that will promote a more realistic, balanced, and sustainable pattern of world trade growth.